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Avoiding the "7 deadly sins of daytrading": how to stay in the game

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MODULE 1](#)

● **Main Points:**

The **FIRST** goal you need to have in daytrading is "How Can I Play Without Losing My Capital?".

The **Second** goal is "How do I make Profitable Trades based on things I Now Know to Look for?"

The **Third Goal** is "How Can I Make Consistent Profits by Daytrading Stocks?"

Without mastering the protective loss-avoidance techniques and high-percentage trading pattern skills, daytrading resembles gambling and over time will consume your capital trade by trade until you're out of the game. This is what happens to the majority of people who attempt daytrading without educating themselves or getting training.



Do you golf? Remember how important it is to avoid getting bad swing habits early in your career? Let's try to avoid topping the ball and slicing when it comes to trading:

Below are 'Seven Deadly Sins of Daytrading' that you should add to your mental checklist before entering a trade. These help you with the first goal, preserving your capital:

The "7 Deadly Sins of Daytrading":

#1: DON'T TRADE THE MOST ACTIVES: we mentioned this in the page on choosing stocks to trade. The most actives also have the best traders competing on them, and volatility is often lower. Your %ages are much better on stocks one level back, in similar sectors (e.g. don't trade INTC, trade ALTR or XLNX instead. Don't trade YHOO, trade DCLK.)

#2: DON'T TRADE DURING LUNCH "DEADZONE" HOURS: many losing trades occur between 11:30 and 2:30 EST. The best time to trade is during the first 2 hours of the market. We'll cover more in our pages on timing entries and exits. Volume is lower during lunch hours and the market makers will not buy as much stock in this time window. More games and fades. Shorting, however, is usually fine around 11:30-1pm (in general) for stocks that are making lower highs and lower lows. Market makers often bid the price down to shake out weak traders over lunch and buy it back in the afternoon, making for eod short cover rallies.

#3: DON'T RATIONALIZE LOSING TRADES: the ONLY

REASON you buy a stock is because you think (or see) that OTHER TRADERS ARE ALSO BUYING THAT STOCK AT THAT MOMENT. If you're wrong and there's more selling than buying, get out fast. Just do it. The market honestly doesn't care about the stocks fundamentals, earnings, ratings etc. during the next 20 minutes that you're in that particular trade. If you're wrong, **wisely admit the small defeat and take a small stop loss.**

#4: DON'T CONFUSE DAYTRADING WITH INVESTING: this is one of the biggest hurdles for new daytraders to overcome. If your trading style is, like mine, in for anywhere from a few minutes to a couple of hours tops, you do not care about all the "noise" such as analysts ratings, the 30day moving average, 2month support and resistance levels...you play on momentum only. Are more people buying the stock now, and for the next few minutes or half-hour or so? That's what counts in daytrading. "INVESTMENTS ARE DAYTRADES GONE BAD". Don't hold dog stocks that went against you and you're holding on hoping for a turnaround someday. That's how to lose money. If you're way down and the stock has stabilized and isn't selling, then maybe hold them. Don't get into that predicament in the first place.

#5: DON'T FIGHT THE TREND. What an insightful statement. :p Daytrading successfully means to understand and **capitalize on the trading trend with 4 times more focus and concentration than you currently use.** Make sure to learn how to "read the tape", if you don't already have **level 2 time and sales** then at least look at the [java island book viewer](#) (updated realtime during market hours!) for your stock to get a partial picture of what's going on in a given day. The datek streamer is a similar device, not complete but ok if you're just starting in daytrading. One of the keys for my 'turning the corner' was to focus on just a few stocks I know like the back of my hand and follow them with intense concentration. I know the market makers, gaps, intraday trading ranges etc. and make money 80% of the time I trade these (SPLS DCLK NOVL my current favorites).

#6: AVOID LOW-VOLUME "PUMP & DUMP" \$1-\$10 CHATROOM SPECIALS. I wince every time I log into one of the free stock chat rooms and see people ("sheeple") following stupid stock calls on junk cheap stocks. I feel sorry for all the trading losses I witness. To learn to be a pro, play like a pro. Read the books, check out some of the good resources out there, and IGNORE THE JUNK FREE STOCK CHAT ROOMS. I won't name any names, but there's plenty I'd avoid. They're good for companionship and fun, but dont follow the crowd. Overall, I'd recommend the pay chat rooms for *learning how to trade* vs. playing the stocks that are called. There's a couple of good ones out there, but again, I can usually out-trade the 'room gurus' so they're a waste of resources for me, and a distraction.



#7: FAILING TO LEARN FROM ONE'S MISTAKES. Ask yourself questions such as: "What did the market teach me today?", "Where did I trade well, and why?" "Why did I lose on that last trade, and how could I have made the loss smaller?" "How can I build more consistent trading habits that will help me profit?" Use a [Daily Trading Journal](#) to help you figure out what you're doing right and what needs work.

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